

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-4-G - ORDER NO. 2014-685

AUGUST 12, 2014

IN RE: Annual Review of Purchased Gas) ORDER RULING ON
Adjustment and Gas Purchasing Policies of) PURCHASED GAS
Piedmont Natural Gas Company,) ADJUSTMENT AND GAS
Incorporated) PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) concerning its annual review of the Purchased Gas Adjustment (“PGA”) and gas purchasing policies of Piedmont Natural Gas Company, Inc. (“PNG”). This annual review is performed pursuant to the provisions of Order No. 88-294, dated April 6, 1988. The South Carolina Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2013). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a Settlement Agreement (“Settlement Agreement”) which was filed with the Commission on July 1, 2014.

The Commission conducted a formal hearing in this matter on July 10, 2014, beginning at 10:00 a.m. in the hearing room of the Commission with the Honorable Nikiya Hall, Chairperson, presiding. C. Lessie Hammonds, Esquire, and Jeffrey M. Nelson, Esquire, appeared on behalf of ORS. James H. Jeffries IV, Esquire, Brian Heslin, Esquire, and Jeremy C. Hodges, Esquire, appeared on behalf of PNG.

At the hearing, and upon the motion of the Parties, the Commission accepted into the record the pre-filed direct testimony of PNG witness Sarah E. Stabley and the pre-filed direct testimonies and exhibits of PNG witnesses Keith P. Maust and Robert L. Thornton, as well as the supplemental and rebuttal testimony and the settlement testimony of Mr. Thornton. The pre-filed direct testimony and exhibits of ORS witness Matthew P. Schellinger II and the pre-filed direct testimony of ORS witness Thomas H. Allen were also accepted into the record.

The Commission accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Schellinger's exhibits (MPS 1-3) were admitted into evidence as Hearing Exhibit No. 2. Mr. Thornton's exhibits (RLT 1-2) were admitted into evidence as Hearing Exhibit No. 3 and Mr. Maust's exhibits (KPM 1A-9) as Hearing Exhibit No. 4.

At the hearing, PNG witness Stabley testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. Ms. Stabley stated that PNG did not implement any changes in its "best cost" gas purchasing policies or practices during April 1, 2013, through March 31, 2014 (the "Review Period"). Ms. Stabley also testified that PNG has taken numerous measures to manage its gas costs consistent with its "best cost policy" including active participation at FERC, restructuring of supply and capacity contracts to adjust to market conditions, and the promotion of more efficient use of its system and of its capacity and commodity rights. Ms. Stabley added that the "best cost" purchasing policy utilized by PNG has been reviewed and

found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Maust testified that PNG serves approximately 138,500 customers in South Carolina and that during the Review Period, PNG delivered approximately 26,543,000 dekatherms of natural gas to its South Carolina customers. Mr. Maust also explained the calculation of PNG customer growth and Design Day needs and the process utilized by PNG to acquire new capacity. During the Review Period, PNG made a change to its Design Day methodology based on a 2.4 degrees lower Design Day temperature of 8.6 degrees Fahrenheit to be effective for the upcoming 2014/2015 winter period as a result of a careful analysis of historic low temperatures in the region, along with a consideration of the very low temperatures during the Polar Vortex events of January 2014. Mr. Maust also testified that PNG's hedging plan continued to act as an insurance policy during the Review Period to reduce gas cost volatility to South Carolina customers purchasing gas from PNG. PNG's South Carolina customers incurred a net economic benefit of \$776,800 as a result of PNG's hedging plan during the Review Period.

PNG witness Thornton testified to the end-of-period balances and the accounting for PNG's deferred gas cost account (Account #253.04). That accounting is set out in Hearing Exhibit No. 3. Mr. Thornton also stated that ORS audited PNG's gas cost accounting as part of this proceeding. Mr. Thornton also testified that ORS audited PNG's Hedging Deferred Account, which records the results of its hedging activities undertaken in accordance with its hedging plan.

Mr. Thornton testified in the supplemental and rebuttal testimony that a curtailment billing matter is under discussion between PNG and the ORS. The matter involved the issue of whether it was appropriate to bill two Emergency Service customers a commodity charge where the customers supplied their own gas for service. PNG did not bill the two Emergency Service customers for the commodity component of Rate Schedule 206. However, PNG did charge the two customers with all other applicable components of its Rate Schedule 206 charges applicable to Emergency Services. PNG acknowledged that was in error. PNG and the ORS expect the resolution of the discussions to result in a prior period adjustment in next year's prudence review. In order to obtain Commission review and authorization for this matter, PNG intends to file a petition seeking (1) authorization for changes to its Rate Schedule 206, and (2) have filed a request for a waiver of one aspect of its existing Rate Schedule 206 billing requirements with respect to emergency service provided during January 2014.

In his settlement testimony, PNG witness Thornton testified that, following extensive review, examination and discussions between PNG and the ORS, both parties agreed to each of the matters stipulated in the Settlement Agreement. The Settlement Agreement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding as signified by all parties being signatories to the Settlement Agreement. ORS witness Schellinger testified that ORS had performed an examination of PNG's deferred account #253.04 for the Review Period and based upon that examination it is the opinion of ORS that account #253.04 is accurately stated and that the balance of \$9,670,461 fairly represents PNG's over-collection balance as of March 31, 2014, with

the exception of any adjustment(s) related to the curtailment billing matter discussed in witness Thornton's supplemental and rebuttal testimony. Mr. Schellinger also testified that ORS verified the calculation of ending inventory balances to the daily storage activity worksheets for each facility and obtained verification from the PNG storage facility operators of the volumes stored in each of the facilities.

ORS witness Allen testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to purchase supplies for periods of one month or less; and managed its hedging activities in a manner consistent with the terms of its approved hedging program during the Review Period. Mr. Allen also testified that ORS had no recommended changes to PNG's hedging program at this time.

The Settlement Agreement reflected that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; with the exception of certain curtailment billing as discussed in the supplemental and rebuttal testimony of PNG witness Thornton; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; (iv) the end-of-period balances for PNG's hedging accounts are those reflected in the testimony of Company witness Thornton; and (v) the end-of-period balances for PNG's deferred gas costs accounts are those reflected in the pre-filed direct testimony of PNG witness Thornton with the exception of any

adjustment(s) related to the curtailment billing matter discussed in witness Thornton's supplemental and rebuttal testimony.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Sarah E. Stabley and the pre-filed direct testimony and exhibits of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits, supplemental and rebuttal testimony and the settlement testimony of PNG witness Robert L. Thornton are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Matthew P. Schellinger II and the pre-filed direct testimony of Thomas H. Allen are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and made part of this Order and, based upon the testimony and exhibits presented at the hearing of this matter, is found to be in the public interest and constitutes a reasonable resolution of the issues in this proceeding. The Settlement Agreement is attached hereto as Order Exhibit No. 1.

4. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period, with the exception of certain

curtailment billing as discussed in the supplemental and rebuttal testimony of PNG witness Thornton and addressed in the Settlement Agreement.

6. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

7. The end-of-period balances for PNG's hedging accounts are those reflected in the testimony of Company witness Thornton.

8. The end-of-period balances for PNG's deferred gas cost accounts are those reflected in the testimony of witness Thornton, with the exception of any adjustment(s) related to the curtailment billing matter discussed in witness Thornton's supplemental and rebuttal testimony and addressed in the Settlement Agreement.

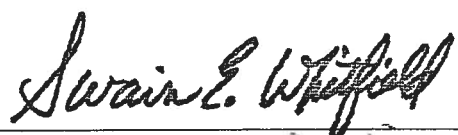
9. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Nikiya Hall, Chairman

ATTEST:



Swain E. Whitfield, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-4-G

July 1, 2014

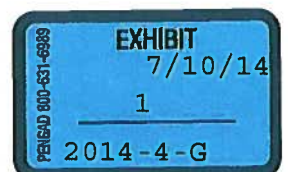
IN RE: Annual Review of Purchased Gas Adjustment)
and Gas Purchasing Policies of Piedmont) **SETTLEMENT AGREEMENT**
Natural Gas Company, Incorporated)

This Settlement Agreement is made by and between the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by the Public Service Commission of South Carolina ("Commission") Order No. 88-294, dated April 6, 1988, the Commission instituted an annual review of PNG's Purchased Gas Adjustment and Gas Purchasing Policies. Additionally, in Order No. 2002-223, dated March 26, 2002, in Docket No. 2001-410-G, the Commission required PNG to file regular reports on the status of the hedging program and the results of its hedging activities. In the above-captioned proceeding the review period is April 1, 2013 through March 31, 2014 ("Review Period");

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest and in the public interest;



WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of PNG witness Sarah E. Stabley, the direct testimony and exhibits of PNG witnesses Keith P. Maust and Robert L. Thornton, and the Supplemental Testimony and Settlement Testimony of Robert L. Thornton without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. PNG will present its witnesses at the hearing and Robert L. Thornton will testify in support of this Settlement Agreement.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony and exhibits of ORS witness Matthew P. Schellinger II and the pre-filed direct testimony of ORS witness Thomas H. Allen, without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. ORS will present its witnesses at the hearing.

3. The Parties further agree that with the stipulated testimony of record and the agreement of the Parties regarding the review period activity and end-of-period account balances, the hearing record before the Commission will demonstrate that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period, with the exception of certain curtailment billing as discussed in the Supplemental Testimony of PNG witness Thornton; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; (iv) the end-of-period balances for PNG's hedging accounts are those

reflected in the testimony of PNG witness Thornton; and, (v) the end-of-period balances for PNG's deferred gas costs accounts are those reflected in the pre-filed direct testimony of PNG witness Thornton with the exception of any adjustment(s) related to the curtailment billing matter discussed in witness Thornton's supplemental testimony.

4. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

5. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

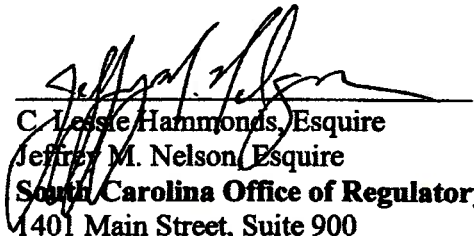
6. This agreement shall be interpreted according to South Carolina law.

7. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

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